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OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Report of the Administrator

SUMMARY

This report is submitted in accordance with General Assembly resolution 36/200 of 17 December 1981, which directed that, beginning in 1983, a broad policy review be undertaken on a biennial basis of those funds and programmes that are managed by the Administrator and are under the guidance of the Governing Council.

In addition to reviewing the operations of the United Nations Capital Development Fund in 1991 and 1992, this report contains information on the UNCDF loan facility, the Fund's experience with revolving funds and the findings of the study on participatory activities, as requested in decision 91/39.

The report ends with a consideration of the development of UNCDF policy in the 1990s in which an area-based programme approach is proposed for the immediate benefit of local communities.

INTRODUCTION

1. Recent world-wide political and economic changes have presented new challenges for the least developed countries (LDCs), but they have created some new opportunities as well.

2. There is a widening gap between needs and resources. Evidence points to a steady increase in the number of poor people in these countries, while concessional aid flows to them stagnate, despite the commitments made in the Programme of Action for the Least Developed Countries for the 1990s. The resource pull exerted by the former second world, the demands of peace-keeping operations and emergency relief and the recession in the industrialized world, possibly allied with some degree of disenchantment on the part of donors, all play their part.

3. On the other hand, two trends now under way should allow aid resource inflows to be used more effectively than in the past and must be exploited by the United Nations Capital Development Fund (UNCDF). First, the market reforms which are being carried out in a large number of least developed countries are unleashing productive energies hitherto dormant. Second, political reforms and the spread of democracy provide greater scope for local communities and local government authorities to pressure for efficient resource allocation and to participate in development efforts whose success is assured.

4. Both these trends are themselves threatened, however, by the persistence of widespread poverty, to which renewed attention is now being given after a period when the development debate was dominated by issues related to macroeconomic stabilization and growth. It is increasingly admitted that while macroeconomic reforms may be necessary to ensure poverty reduction over the long term, they are not sufficient.

5. This renewed attention to poverty is associated with an emerging consensus on the shape of poverty reduction strategies in which positions which were previously polarized are now converging. There is growing recognition that there need be no conflict between poverty reduction and the attainment of growth objectives. Indeed, the study on rural poverty recently prepared by the International Fund for Agricultural Development (IFAD) presents powerful evidence that growth strategies cannot succeed unless they are directed towards the poor. Further, the debates surrounding the United Nations Conference on Environment and Development showed that while economic and environmental goals are at times in conflict in the rich countries, the root cause of natural-resource degradation in least developed countries is often poverty itself, with the result that environmental and economic goals coincide. Finally, it is gradually being accepted that poverty reduction itself requires a balanced mix of productivity-raising investments and basic economic and social infrastructure.

6. Agreement on such fundamental questions among different parties in the development effort means that closer attention can be paid to the substantive details of growth strategies oriented towards the poor. The renewed focus on poverty as the overriding problem is important for the Fund since it has long been active in devising and implementing practical, locally tailored solutions

to the problem of poverty in least developed countries by providing productive assets in combination with economic and social infrastructure.

7. The special role that the Fund has played and must continue to play in poverty reduction strategies was recognized at the Tokyo Forum for Least Developed Countries, which it organized in conjunction with the Government of Japan in May 1991. In view of the expanded needs, however, the Fund cannot play its part adequately without an increase in resources, in line with the 20 per cent annual growth target recommended for it at the second United Nations Conference on Least Developed Countries.

I. PROGRAMME ACTIVITIES

8. Over the biennium, five countries (Cambodia, Madagascar, Solomon Islands, Zaire and Zambia) were designated LDCs, and Namibia was named an "as if" LDC. The number of countries eligible for UNCDF assistance has thus risen to 53. During the period, UNCDF fielded 14 planning and project identification missions, and projects valued at over $150 million have been retained as active pipeline projects. Owing to resource shortages, however, it has been possible to extend UNCDF assistance to only two of the additional countries to date.

9. The need to link capital assistance to institutional capacity-building means that UNCDF has maintained strong ties with UNDP and continues to operate in close coordination with other donors, both bilateral and multilateral. This coordination has included joint financing of individual projects (through various parallel, co-financing or trust-fund arrangements), UNCDF consultations with other donors in country programming exercises and active participation by UNCDF at round tables. It should, however, be noted that the recent relative decline in UNDP-resource availability has led UNCDF to investigate capital increasingly in engineering and management services.

10. Project approvals. In 1991, with pledges on the rise, the partial funding formula, revised in 1987, allowed project approvals and grant increases to rise to a record level of $86.3 million. Details were reported in the 1991 UNCDF Review, issued in celebration of the twenty-fifth anniversary of the Fund.

11. In 1992, contributions declined by 9 per cent by comparison with 1991. The negative impact of this development was disproportionate because of the effect had by the partial funding formula on the Fund's ability to enter into new project commitments. Only $56.3 million were approved in 1992, amounting to nearly the maximum permitted under the formula and coinciding roughly with the 1987 level. The new projects approved are described in annex I.

12. Project expenditures. Total project expenditures for 1991 amounted to $45.5 million, of which $44.6 million came from general resources and $900,000 from co-financing. This represents an increase of 11 per cent over 1990. Projections for 1992 indicate expenditure will be in the $50-55 million range, which is higher than in any previous year. The maximum projection represents a rise of 21 per cent over 1991. Should it prove correct and should income from interest be lower than expected, UNCDF's accumulated resources would drop by approximately $8.4 million, or 9 per cent.

13. Although the UNCDF delivery rate has risen recently, it is still unsatisfactory, and the Fund is examining modalities for improving its delivery. It must, however, be recognized that mechanisms to ensure popular participation cannot be established in haste and that the political systems of many LDCs are in transition. Both of these factors compromise the ability of the Fund to deliver goods and services. As participatory mechanisms are gradually established and transitions effected, an upturn in the Fund's delivery rate is expected to occur.

14. Programme content. Projects with a wide range of objectives were identified or approved during the biennium. These may be classified broadly as being aimed at either increasing the productivity and household income of the poor or improving their access to basic social services. UNCDF has endeavoured to design projects which are not only technically and economically viable and sustainable but are also innovative and therefore easily replicated by donor agencies which fund larger amounts of capital.

15. The 1992 sectoral breakdown of new project approvals reflects the following distribution of capital assistance: (a) productive activities, including agriculture and the promotion of enterprises (63.6 per cent); (b) economic infrastructure in the transport sector (15.9 per cent); (c) basic-needs infrastructure (water supply and sanitation) (20.5 per cent). Over 50 per cent of new approvals specifically targeted women as beneficiaries.

16. In-house training and staff development. UNCDF benefited from a trust fund financed by Norway for the purpose of improving staff skills in the programming and management of projects aimed at the realization of sustainable development and of minimizing the possibility of projects' having an adverse environmental impact. This fund made it possible for staff members to participate in a specialized training course conducted by London University. Environmental guidelines pertaining to the UNCDF project cycle have also been prepared, and a training workshop on their use is planned for 1993.

17. A workshop on the economic and financial analysis of projects was organized for staff members in early 1992 with the participation of the Economic Development Institute (EDI). This exercise will be repeated at regular intervals.

18. Loan operations. The information on the UNCDF loan facility requested in decision 91/39 is contained in section A of chapter V below.

19. Revolving funds and credit. The information on the Fund's experience with revolving funds requested in decision 91/39 may be found in section B of chapter V below.

II. EVALUATION ACTIVITIES

20. Project evaluations: lessons learned. During the 1991-1992 biennium, UNCDF undertook 26 evaluation missions: 8 ongoing, 17 completed and 1 ex post facto. It was found that while most of the projects evaluated attained their immediate objectives, flaws in project design have persisted, especially as pertains to the overestimation of institutional capacity, which has delayed

implementation and threatened post-project sustainability. Furthermore, while a number of projects have efficiently achieved their intended outputs, the attainment of ultimate project objectives has been more modest because of excessive optimism in the initial assessment of impact potential in project areas, as happened, for instance, in the case of a road and reafforestation project in Burundi.

21. There are, however, many instances of positive project impact on beneficiaries. For example, a biogas project in Nepal established biogas as an alternative energy source nationwide, reducing fuelwood consumption and the daily workload of Nepalese girls and women. The feeder roads project in Bhutan prompted a surge of economic activity in the villages served and provided beneficiaries in remote hilly regions with better access to both basic services and markets. On the other hand, it must be noted that meaningful, rigorously performed impact-assessment continues to be compromised by a lack of socio-economic baseline data from which to start. As a consequence, the ultimate impact of projects is all too often assessed on the basis of evidence which is merely anecdotal. Measures are being taken to ensure that adequate baseline data is collected at the inception of projects.

22. Management of the evaluation process. The evaluation has evolved in three phases: (i) development of an evaluation methodology; (ii) development of an evaluation portfolio covering over 150 projects; (iii) improvement of feedback and data-analysis. During the biennium, the last phase has been implemented by creating the Evaluation Review Committee (ERC) and launching the computerized Project Monitoring and Evaluation System (PMES). The purpose of ERC, which is chaired by the Deputy Executive Secretary and serviced by the Policy Planning and Evaluation Unit, is to review each evaluation report and ensure that its findings are fed back into both programme divisions. The main advantages of PMES are: (i) better use of evaluation findings due to improved access to them and greater ease in comparing them and (ii) improvements in the scope and quality of the evaluation exercise itself. More complete data will be systematically generated and recorded during the implementation phase and made available to evaluation missions, which can then concentrate on their verification and analysis and on impact assessment.

23. Thematic review of participatory activities. The information on the findings of the study on participatory activities requested in decision 91/39 is contained in section C of chapter V below.

III. FINANCIAL STATUS OF THE FUND IN THE 1991-1992 BIENNIUM

24. Resources. Pledges for 1991 collected in that year reached $42.7 million, which represent an increase of 6 per cent over the previous year and set a record. Unfortunately, contributions for 1992, which have been estimated at $39.6 million, show a decline of 9 per cent from the amount pledged in 1991. Competition for ever-scarcer public resources at a time of recession at home and political change abroad has put unforeseen demands on some UNCDF donors traditionally characterized by their generosity. The inevitable result has been a serious reduction in the capacity of the Fund to approve new projects. Contributions projects for 1993 at the time of the Pledging Conference represented an increase of 3 per cent. In December 1992, however, when

exchange-rate fluctuations were taken into account, estimates of pledge income for 1993 showed a decrease of 5 per cent from 1992 and of 13 per cent from 1991.

25. Effect of the partial funding formula. The dollar value of new project commitments in any given year is determined by the application of a partial funding formula. The formula was introduced and later modified in order to allow a higher level of project approvals than would be the case under full funding, on the understanding that more approvals would result in increased deliveries of goods and services and thus in the drawdown on and use of the accumulated resources of the Fund. The formula puts a cap on the total value of outstanding commitments, which is based on both the amount of available resources (not including the operational reserve) and the level of expected contributions to the general resources of the Fund measured on the basis of the pledges made each year. Total outstanding commitments are not allowed to surpass the amount of available resources plus five years of pledges. Co-financing is not taken into account in the formula because normally donors place restrictions on its use.

26. With pledges rising in recent years, the Fund was able to increase annually its new project commitments from general resources. The drop in pledges in 1992, combined with the high levels of new project approvals over the previous four years, meant that 1992 was the first year in which the ceiling set by the formula was very nearly reached with new project commitments, including grant increases, amounting to only $56.3 million, a 35 per cent decline from the amount committed the preceding year. The estimated decline in pledges in 1993 will allow UNCDF to programme a maximum of $62.5 million from general resources, grant increases included. Income from a recently concluded co-financing agreement with Germany for $3.1 million for a project in Guinea would free an equivalent amount in general resources and allow approvals in 1993 to reach $65.6 million, which is still 24 per cent lower than their value in 1991.

27. Ironically, this decline in approvals will have occurred in a year when the thinking behind the formula is being proved correct: the projected maximum delivery level from general resources amounting to $53 million ($2 million in estimated 1992 expenditures corresponding to co-financing agreements is not included) will consume an estimated $6 million of accumulated resources. Lower interest rates on UNCDF investments and the consequent drop in interest income for 1992 will consume an additional $3.5 million, which will be offset in part by $700,000 in loan repayments from Botswana. As mentioned in paragraph 12 above, the total drop will amount to $8.8 million, or 9 per cent of the accumulated resources of the Fund. As shown in annex II, with delivery projects for the next few years keeping pledges constant, UNCDF will continue to consume its accumulated holdings (exclusive of its operational reserve) at an accelerating rate. By the end of 1997, nearly 80 per cent of current available resources accumulated from prior years will have been consumed (see line 14 of the table in annex II). In the more optimistic scenario, 85 per cent will have been consumed.

28. Thus, in a sense, UNCDF is falling victim to its own success in utilizing money which serves as one of the two points of reference of the partial funding formula in a year when the other point of reference - pledges - will be even lower than two years previously. While this simultaneous shrinkage constitutes

no short- or medium-term threat to the Fund's financial stability, it doubly compromises its current ability to approve new projects.

29. Resource requirements. Not only is the "pie" of UNCDF assistance shrinking, it must be cut in smaller pieces with the addition of six new nations to the list of eligible recipients. The effectiveness of the Fund is threatened by the lack of sufficient resources to make the desired synergy workable. These prospects are highly undesirable for LDCs, whose needs are obviously enormous. Increased efforts must be made to mobilize resources from donors, thereby demonstrating that the performance in 1992 was the exception rather than the rule. The outlook for 1993, while still uncertain, does not, at best, represent much of an improvement.

30. While co-financing is always a desirable option, its value to UNCDF is lessened by the fact that in terms of programmable resources, its dollar impact is one to one, whereas under the formula, general-resource contributions enable UNCDF to programme new projects whose dollar value is five times greater. Nevertheless, UNCDF has not been inactive in seeking co-financing. Co-financing in the next few years from Germany and the Netherlands alone could total nearly $15 million.

31. While new needs have arisen, old needs remain, as recognized by the international community at the second United Nations Conference on the Least Developed Countries held in Paris in September 1990, at which it was agreed that the general resources of the Fund should increase by 20 per cent per annum through the end of the present century. Annex II to this document shows the impact both of zero growth and of the targeted growth of 20 per cent. With no growth, approvals drop from a high of $62.5 million (not including $3.1 million freed for general resources following the project financing for Guinea provided by Germany) at the start of the period to $47.5 million by 1997. With 20 per cent annual growth, approvals begin to exceed $100 million in 1995, reaching $142 million by 1997.

32. Since its establishment more than 25 years ago, UNCDF has favoured the most vulnerable recipients, as prescribed in its terms of reference. At present, UNCDF has before it requests for $210 million in financing for projects. For the Fund to reduce activities while the international community is increasingly confirming both the effectiveness and the appropriateness of aid modalities would be a great setback for poverty reduction in the poorest countries.

IV. ADMINISTRATIVE MATTERS

33. A plan to automate most of the business processes of the Fund is now being implemented and will eventually accelerate the flow of information and response time in most operations. Project monitoring and evaluation and all aspects of financial management have received priority attention. While these advances will have long-term staffing implications, it is too early to predict them accurately.

34. Given the decisions made regarding UNCDF at the second United Nations Conference on the Least Developed Countries and the most recent session of UNCTAD, the Administrator is of the view that the Fund should still plan on

increased resources for the coming years. No significant increases are expected, however, in the administrative budget of the Fund for the 1994-1995 biennium. Every effort is being made to contain or reduce costs. The Technical Support Facility (TSF), formerly known as the Programme Support Budget, continues to finance the services of the Fund's five technical advisers and secretarial support at Headquarters and the 35 Field Implementation Units in countries where UNCDF is most heavily engaged. The Facility is supported by a percentage charge on each project. With approvals declining at least in the short term, UNCDF anticipated an imbalance of expenses over income and received approval to increase the percentage charged from 3 per cent to 4 per cent with effect from 1 January 1991. At the same time, it is attempting to hold the line on the costs of TSF activities, which have been a factor behind the higher levels of delivery in recent years. Those costs amounted to $2.4 million in 1991, and as a result of support-staff reductions at Headquarters, will be the same in 1992. Since such activities are kept under continuing review, their cost may even fall in 1993 and beyond.

35. Last year it was decided that TSF would no longer absorb the costs of developing project proposals which turn out not to be available and are therefore not approved. Such write-offs average approximately $450,000, and represent less than 1 per cent of annual deliveries in 1991 and 1992. The value of such "natural wastage" is not expected to rise significantly in the years to come.

36. With rising project delivery and steady or declining administrative and other support costs, UNCDF is expected to have experienced a decline in overhead costs in 1992 by comparison with 1991, when total administrative and TSF costs represented 15.4 per cent of deliveries. That figure is expected to have fallen to 13 per cent in 1992. Since administrative costs are not expected to increase in the next biennium while expenditures will continue to rise, overhead ratios are likely to continue to decline.

V. INFORMATION REQUESTED AT THE THIRTY-NINTH SESSION

A. Loan operations

37. In its decision 91/39, the Council requested the Administrator to make a progress report on and outline his plans for the future of the concessional loan facility activated under decision 85/24 of 28 June 1985.

38. Four loan agreements - three relating to Botswana and one to Nepal - whose total value is $13 million, have been signed, brought into force and fully disbursed. The terms of all four include a three-year grace period following initial drawdown and a seven-year, interest-free repayment period. There is a one-time loan-service fee of 3 per cent.

39. Projects are granted loans on the basis of the macroeconomic situation and absorptive capacity of the recipient country, their estimated contribution to the development of their country's productive sectors, their estimated capacity for generating foreign-exchange income and for repaying the loan from their profits and the usual considerations of technical and economic feasibility.

40. The sum of $500,000 was loaned to finance part of a project in Nepal aimed at fostering the use of biogas as an energy alternative to fuelwood and imported fuels. Great caution was exercised in extending this loan, given the shortage of foreign exchange and the balance-of-payments situation of the recipient country. The project has been successful and is nearing completion. The initial drawdown of $300,000 was made in June 1989. It was foreseen that the necessary foreign exchange would be generated through savings on fuel imports. The repayment process has been initiated.

41. The three loans to Botswana include $5 million for the construction of 104 kilometres of secondary roads for improved agricultural production and marketing; $2.7 million for a water-supply and sanitation scheme to cope with the rapid growth of tourism in the northern part of the country and $4.7 million for the construction of secondary schools to produce enough school-leavers to occupy empty jobs in both the public and the private sectors. Botswana's strong foreign exchange holdings and favourable macroeconomic position were key considerations in the selection of these projects. In the first instance, the loan is to be repaid and the roads maintained by charging transport-users higher fees and by levying marketing and other taxes. Drawdown took place in December 1989, and repayment has begun, drawdown on the second loan took place in December 1990, and no repayment problem is expected in connection with it or with the third loan, on which the drawdown took place in June 1992.

42. UNCDF loans have gone first to projects benefiting the poor in rural areas or in towns and villages outside the capital and other major cities. The second priority has been to enhance private-sector productivity. In order to further this aim, they have been used as a modest infusion of "venture capital" in areas where such funds are scarce and the risks to private investors are daunting. It should be noted that the internal rates of return on all projects benefiting from UNCDF loans have proved to be impressively positive. Because of the repayment obligation, the third requirement for a UNCDF loan is that there should be discipline and clear focus between lender and borrower at the outset. Borrowers must demonstrate ability to repay and sufficient internal management capacity to ensure coherent financial organization. Firm institutional and contractual arrangements are the sine qua non of the loan programme. Fourth, loans must not reduce UNCDF's resources; they must be regarded as assets which will eventually be used to benefit other LDCs. Finally, it should be borne in mind that loans have not added appreciably to the administrative costs of the Fund.

43. Arguments for continuation of the loan facility, albeit within modest levels, are compelling although grants are of clearly greater value to the debt-encumbered countries served by the Fund and will therefore remain the centrepiece of its programmes. Even if increased lending were intended, plentiful opportunities do not seem to exist for UNCDF-style lending; the loan programme currently represents roughly 5 per cent of the total outstanding commitments of the Fund. The Administrator requests that the Council authorize the continuation of the loan facility within UNCDF.

B. Revolving funds and credit

44. In accordance with Governing Council decision 91/39, the Administrator wishes to address the experience of UNCDF with revolving funds and credit, thereby updating his report on the same subject to the thirty-eighth session of the Council.

45. During the biennium, UNCDF approved 18 projects which included credit. The total approved amount of these projects was $56.9 million, of which $17.6 million related to their credit components. The credit components of many of them consist of minor but essential activities in wider rural-development initiatives; in other projects offering support to small entrepreneurs or farmers they constitute the principal activity. In recent years UNCDF has financed the following credit programmes for lower-income entrepreneurs.

46. In projects in Senegal, Tanzania and Lesotho, micro- and small-scale enterprises are given access to credit through collaborative arrangements between commercial banks and specialized intermediaries (NGOs, small industry and trade associations and cooperatives), under which the latter identify and appraise borrowers and provide ongoing monitoring services and are tracked by the banks through the performance of borrowers. Commissions are paid to them on the basis of successful recovery.

47. The Fund has worked through existing micro-credit institutions in Bolivia and Bangladesh (Grameen Trust), adopting their methods of directing poor people - women, in particular - to new markets or areas of activity. Thus, it pioneered in the funding of a $1.7 million facility to assist grass-roots NGOs in LDCs world wide, using training and backup by Grameen Trust and providing small grants ($50,000) as seed capital to initiate credit programmes for the poor.

48. A revolving lease fund was set up to assist small passenger- and goods-transport operations in four rural districts in Malawi, first by overcoming an extreme shortage of vehicles which seriously curtails the movement of people, crops and inputs, thus limiting farm production in poor areas and second by encouraging the Government to relax restrictive national transport regulations in order to restore the economic viability of rural trucking. A project in Bangladesh will provide credit and technical support for 1,000 landless and other poor farmers (30 per cent of them women) to enable them to engage in fish-farming integrated with the intensive culture of duckweed as a low-cost feed source. The prospects of replicating this technology are most promising to a land- and biomass-scarce economy, such as that of Bangladesh.

49. All such approaches aim to develop mechanisms which are financially sustainable, by reducing the administrative costs of small-scale lending programmes through greater use of intermediary groups and by charging close-to-commercial rates of interest and/or service fees. UNCDF experience of overly subsidized lending programmes corroborates that of other agencies: not only does it undermine the financial sustainability of lending institutions but also, wealthier borrowers tend to benefit disproportionately.

50. Revolving funds have been used to facilitate access to form inputs in irrigation projects financed in Guinea, Viet Nam, Mali and Bangladesh and

identified in Lesotho. In these projects emphasis is placed on operation and maintenance and on the provision of equitable access to water. An attempt will be made to recover the full cost of the project in Bangladesh, which is being implemented by a management foundation owned by Grameen, by selling water and farm inputs to as many as 90,000 farmers. The project will generate substantial wage-employment which will benefit landless women, in particular. The project in Viet Nam will assist the Government in redirecting national policy on operation and maintenance following the transition from a command to a market economy and the decline in the role of cooperatives.

51. Fishery projects have been financed through revolving funds in Nicaragua ($3.6 million) and Eritrea ($2.9 million). In both instances a major concern has been to encourage the return of private suppliers of fishery inputs.

52. A rural market project in Nepal has been approved for financing, and similar projects have been identified in Bangladesh and Yemen. These investments encourage local agricultural production through more efficient marketing procedures, and their financial viability is ensured by exacting fees from traders. Women farmers, in particular, are expected to benefit.

53. The Fund has approved road-infrastructure projects for opening up isolated parts of Laos, Mozambique, Senegal, Viet Nam, Yemen, Nicaragua and Sierra Leone and similar projects have been identified in Bangladesh and Lesotho. In these projects, maintenance has been an overriding concern. Whenever feasible, operations are subcontracted to small private firms, and care has been taken to strike the right balance between labour-based construction, which creates employment, and mechanized operations.

54. Village water-supply projects financed in Malawi, Guinea-Bissau, Equatorial Guinea and Senegal and identified in Lesotho, Mali, Cape Verde and the Gambia aim at reducing the workload for women, and at increasing the quantity of water consumed and improving its quality. Much attention has been paid to repair and maintenance arrangements and to linking the infrastructure provided to public-health education. In the Gambia the efforts of the Fund to promote the growth of a local well-contracting industry in the private sector have been replicated by the European Community.

55. The Fund has financed several microproject components within larger rural development projects and one or two projects which are tailored to an approach whereby the nature and location of small infrastructure investments are determined by local communities in the course of implementation rather than being predetermined at the outset. One such project, which is being implemented in the Central African Republic, has achieved such success that it is being replicated on a wider scale by the African Development Bank. It is planned to pursue this approach more widely in the future (see sect. VI below).

C. Thematic review of participating activities

56. In Governing Council decision 91/39, the Administrator is invited, in his report to the fortieth session, to address the findings of the UNCDF study on participating activities, which has included (a) an in-depth evaluation of UNCDF programmes in Mali, Benin, the Niger and Guinea, where socio-economic conditions

are comparable and (b) the preparation of a synthesis report as a contribution to the broader policy debate subsequent to the Conference on Environment and Development. This report explores ways and means of achieving sustainable human development in the context of poverty reduction.

57. In-depth evaluation. In the course of the evaluation in Mali a methodology was developed for achieving a better understanding of the sociogeographic context of project activities, and insights were obtained into the relationship between projects and the political structure of the villages towards which they were directed. Proposals were drafted for future interventions, taking the ecological characteristics of the region into account. In the case of Guinea, emphasis was placed on the economic assessment of the project results in view of the fragility of a production system which is dependent on a very narrow market demand. In Benin and the Niger, significant participation has been obtained through the construction of community-managed socio-economic and production infrastructure, but the involvement of groups and individuals in the use of funds for micro-credit, micro-projects and village banking operations has been slow to develop. It has also been observed that the absorptive capacities of the informal sector is low in remote areas.

58. The synthesis report spells out some ways of combining small-scale grant investment and local capacity-building with long-term environmental protection objectives.

59. The concept of a participative eco-development programme is grounded in a contractual mechanism between the programme and its partners. Programme inputs which meet needs identified by local communities in such areas as feeder-road infrastructure, water supply and the provision of dispensaries are traded against the commitment of those communities to undertake longer-term activities of benefit to the environment (e.g. reafforestation, land conservation). This approach, which is to be tested in a newly approved project in the Niger, also encompasses measures for encouraging more intensive and productive agricultural technologies in marginal areas in order to relieve pressure on fragile terrain. In such regions, parallel assistance in intermediary urban networks linked to target rural areas creates off-farm employment, which draws population away from over-exploited areas.

VI. POLICY DEVELOPMENT: UNCDF IN THE 1990s

A. Background

60. The main goal of the Fund is still poverty reduction, and UNCDF will continue to address it through a balanced mix of investments in which productivity- and income-enhancing measures work together with measures designed to improve access to basic social services.

61. The special role of the Fund in global poverty-reduction strategies was confirmed at the second United Nations Conference on Least Developed Countries and at the Tokyo forum. UNCDF has been engaged in an internal policy review exercise in order to define this role more specifically in the light both of the cumulative experience it has derived from its own programme operations and evaluation exercises and of the positive trends referred to in the introduction

to this report. Two interrelated themes are emerging from this exercise: (i) the comparative advantages of the Fund as a sponsor of innovative approaches and (ii) the compelling reasons for operating within area-based development programmes.

B. The comparative advantages of the Fund

62. The role of UNCDF as sponsor of innovative programmes derives from considerations of comparative advantage. Although the Fund stands very small alongside other donor agencies, the relative flexibility and small scale of its operations, which are associated with its size, put it in an ideal position to continue and expand the financing of initiatives which are genuine pilot schemes, devising and testing solutions to critical development problems associated with the provision of credit and of economic or social infrastructure, which can later be replicated by larger donors on a wider scale. Its performance of this role is further strengthened by the grant nature of UNCDF financing, which relieves recipient Governments of repayment burdens which might otherwise discourage them from embarking on ventures they may deem to be risky. The following are areas where the Fund is engaged in such activities but where there is great need for more experience in order to generate solutions.

63. Credit and savings. Despite the proven "bankability" of the poor, there is still urgent need, particularly in Africa, to develop institutional mechanisms which (i) mobilize savings and (ii) reduce the high administrative cost incidence of small loans, which is still the major problem facing both the public and the private banking sectors in lending to the poor.

64. Agriculture and rural development. There is evidence that all over the world the poor are becoming increasingly concentrated in areas which are agriculturally marginal and environmentally fragile, where poverty is inextricably linked to resource degradation. In these circumstances UNCDF must work with other donor and research agencies to develop participatory approaches to stabilizing land-productivity and ensuring the sustainability of resource systems and to promote production activities off the farm, as mentioned in paragraph 59 above. At the same time the Fund will take care not to neglect agricultural areas of greater potential which provide opportunity to reduce pressure on marginal areas and absorb productive capital more readily (through irrigation and credit schemes and the like). In such areas there is need to continue to develop solutions to such critical problems as irrigation-system operation and maintenance and the integration of the private sector into farm input, supply and marketing logistics.

65. Provision and maintenance of infrastructure. As already noted, the importance of basic social and economic infrastructure is now being re-acknowledged in the development debate after a period of relative neglect during the 1980s. There is need first to pursue participatory approaches which link infrastructure supply more closely to demand by increasing the involvement of local communities and local government authorities in the ownership of infrastructure or in the management of microproject funds. Second, financial mechanisms and user payment arrangements must be refined in order to ensure long-term maintenance of infrastructure assets.

C. Rationale for area-based approaches

66. At the same time, there are compelling arguments for the Fund to continue activities of the sort outlined above within area-based programmes. The small size of the Fund means that its resources have little impact if the activities it financed are scattered throughout the individual countries it serves. Concentrating activities within areas meets the goal of efficiency in two ways. First, it allows interlinking geographically proximate investments to operate synergistically thereby maximizing the impact of a programme. More particularly, it promotes better understanding of the interrelationships and dynamic linkages between intermediate urban centres and the rural areas surrounding them, making it possible to exploit them to better advantage. Secondly, it fosters more efficient logistic arrangements, which reduce the incidence of overhead costs for the implementation and monitoring and may justify the establishment of specialized programme-implementation units.

67. Perhaps the most important, and certainly the most exciting argument for an area-based focus is that it allows the Fund to build partnerships with local grass-roots organizations, NGOs and elected local government authorities at the district, provincial and municipal levels. This is important first because it associates such authorities with decisions on resource-allocation and project-design and gives them certain responsibilities in respect of the operation and maintenance of projects and increases the likelihood that investments will correspond to real needs and that they will be sustained in the long term. Secondly, it is perhaps the most effective way to support the declared intent of the Governments of many LDCs to decentralize responsibilities for development activities. It is therefore also supportive of trends which favour the replacement of centralized State structures by the pluralist civil institutions so vital to healthy democracies. In this regard, it should be stressed that NGOs are not the only alternative open to donors wary of central government structures; local governments represent a third way, which is particularly relevant to agencies operating on the scale of UNCDF.

68. Various constraints limit the extent to which UNCDF can follow this approach in many LDCs, and it is well to recall the lessons taught by the integrated rural development projects of the 1970s and 1980s, which often failed because of overcomplexity or overambitious attempts to raise productivity in resource-poor rural areas through the application of unproven technical packages. It should also be remembered, however, that a principal source of failure was the unsuitability of the institutional arrangements established to manage the myriad project activities, many of which were not linked to local political and administrative structures.

69. The failure of many such programmes lay in the "supply driven" approaches they took to the provision of infrastructure, operating through ministries which retained ownership. The UNCDF approach represents a reversal of this practice in that local communities and local governments which own the assets invested are empowered to demand inputs and services either from central government agencies or from the private sector. Its adoption will require close coordination with other donors to ensure the provision of the assistance required to build the capacity of local government institutions to plan, implement and manage additional capital funds; more particularly, considerable scope should be allowed for collaboration with UNDP.

Annex I

NEW PROJECTS APPROVED IN 1992

Country	Title	Project number	Description
Bangladesh	Integrated Aquaculture	1.9	To provide 1,000 landless farmers and smallholders in two of the poorest districts with the technology and credit financing needed to enter into fish farming based on the production of high-protein duckweed.
Benin	Improvement of Living Conditions in the Aguegues Lakeside Subprefecture	4.2	To help fishermen in the area to increase their revenues by introducing improved production techniques and a credit facility, constructing dikes, a wharf and other basic infrastructure and providing ferries and means of transport for opening up the area.
Central African Republic	Support to Rural Self-Help Development Activities	1.1	To expand an old UNCDF project to promote improved living standards and income-generating potential in the Ouham and Basse Kotto regions, stressing the development of community-level self-help infrastructure development and income-generating activities for women.
	Water Supply and Sanitation	3.7	To develop a permanent supply of good drinking water for 105,000 inhabitants of the Ombella M'Poko and Lobaye areas and to improve sanitation systems by drilling and equipping boreholes and increasing the number of latrines by at least 20 per cent.

Country	Title	Project number	Description
Equatorial Guinea	Rural Water Supply and Sanitation	1.0	To supply clean water and basic sanitation to 92,000 people in 270 villages of the continental region.
Eritrea	Fisheries Rehabilitation in Semhar Province	2.9	To increase food production by rehabilitating the fishing fleet and improving fish-landing and storage facilities and the distribution and marketing network.
Guinea-Bissau	Water Supply and Sanitation in the regions of Oio and Gabu	5.3	To improve the domestic water supply, in terms of both quality and quantity, to the benefit of approximately 120,000 people in the two regions through the construction of 380 boreholes and 750 municipal sanitation facilities equipped with latrines and watering places.
Madagascar	Guarantee Fund and Credit Line for Micro-enterprises	4.8	To promote the private sector by facilitating access to micro- and small enterprises through the creation of a credit guarantee fund intended to cover risk-sharing with selected national banks and venture-capital funds.
Malawi	Rural Motorized Transport	1.4	To upgrade the capacity for motorized passenger and freight transport in the districts of Dedza, Rumphi, Mulanje and Mwanza through the establishment of a fleet of 36 small-capacity trucks for lease to private operators and a revolving fund to finance the scheme.

Country	Title	Project number	Description
Mozambique	Road Rehabilitation in the Province of Zambezia	3.0	To open up an area with high development potential where returnees are expected to settle by reconstructing 100 kilometres of gravel road along with major and minor bridges between Gurue and Mutuali.
Nepal	Small Marketing Infrastructure	3.6	To meet demand for agricultural products and provide farmers with incentives for increased production by constructing collection and trading centres in the central region and in Pokhara and by establishing an information network and introducing improved packaging.
Nicaragua	Construction of a Bridge on the Jicaro River	0.9	To facilitate transportation, particularly of agricultural inputs and produce, in the La Vigia Valley by constructing a 75-metre bridge connecting major arteries on either side of the Jicaro river.
Niger	Integrated Rural Development in Mayahi	5.6	To restore the agroecological equilibrium and increase agricultural and livestock production, through contracts with village groups and families in 40 villages with a view to the reafforestation of about 10,000 hectares and the introduction of intensive agricultural techniques and income-generating activities.
Sierra Leone	Construction/ rehabilitation of Roads and Support to Labour-intensive Rural Works Programme in Moyamba	2.4	To open up the country's principal agricultural and fishery zone by reconstructing 196 kilometres of roads and bridges and establishing a maintenance system. Storage facilities will also be built.

Country	Title	Project number	Description
Uganda	West Nile Credit Project	3.1	To increase credit and savings opportunities for micro- and small-scale entrepreneurs of both sexes by establishing a credit fund and providing the physical facilities for it through CERUDET, an existing industrial and trade association.
Vanuatu	Boatyard and Mechanical Workshop Facilities	0.7	To increase the income potential of fishermen and the national food supply by upgrading facilities at the Luganville boatyard to permit the construction and servicing of modernized fishing boats capable of operating outside the traditional shallow fishing grounds.
Viet Nam	Industrial Credit Facility	3.7	To increase industrial potential in Quang-Nam Danang Province by establishing a credit facility for granting medium-term loans in foreign exchange for the purchase of machinery, equipment and spare parts by private and State-owned industrial enterprises producing consumer goods, textiles and fishery- and agro-based products.

Annex II

GENERAL RESOURCES AVAILABILITY AND UTILIZATION, 1987-1997 a/

(Millions of dollars)

	Actual					Estimated	Zero growth projected					20 per cent growth projected				
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
STATEMENT OF MOVEMENT IN GENERAL RESOURCES																
1 Available resources from previous year	95.3	98.2	103.8	97.8	100.9	101.2	92.4	72.0	53.5	39.7	28.5	92.4	72.0	53.5	38.8	26.2
Resources made available during the year																
2 Voluntary contributions received b/	31.5	35.5	36.5	39.5	44.5	39.6	37.7	37.7	37.7	37.7	37.7	37.7	45.2	54.3	65.1	78.2
3 Loan repayments	0.0	0.0	0.0	0.0	0.0	0.7	0.8	1.1	1.8	1.8	1.8	0.8	1.1	1.8	1.8	1.8
4 Other income	10.3	11.1	14.4	14.1	11.4	8.0	6.4	6.7	6.6	6.4	6.1	6.4	6.7	7.1	7.5	8.2
5 Reduction in operational reserve	0.0	0.0	0.0	0.0	0.0	0.4	2.7	4.1	3.7	2.8	1.8	2.7	0.0	0.0	0.0	0.0
6 Decrease in non-convertible currencies	0.1	0.0	0.1	0.0	0.5	0.0	0.0	0 0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Total resources made available during year c/	41.9	46.6	51.0	53.6	56.4	48.7	47.6	49.6	49.8	48.7	47.4	47.6	53.1	63.2	74.5	88.2
Resources used during the year																
8 Project expenditure	(30.7)	(31.3)	(45.7)	(33.9)	(44.6)	(48.0)	(61.0)	(63.2)	(58.6)	(54.5)	(51.3)	(61.0)	(63.2)	(67.1)	(73.1)	(82.0)
9 Administrative expenditure	(3.1)	(3.2)	(3.3)	(3.9)	(4.2)	(4.5)	(4.5)	(5.0)	(5.0)	(5.4)	(6.0)	(4.5)	(5.0)	(5.4)	(6.0)	(6.6)
10 Loans disbursed	0.0	0.0	(1.9)	(6.1)	0.0	(5.0)	(2.5)	0.0	0.0	0.0	0.0	(2.5)	0.0	0.0	0.0	0.0
11 Change in operational reserve	(5.2)	(6.4)	(6.1)	(6.5)	(7.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.4)	(5.4)	(7.9)	(10.5)
12 Change in non-convertible currencies		(0.1)		(0.1)												
13 Total resources used during year	(39.0)	(41.0)	(57.0)	(50.5)	(56.1)	(57.5)	(68.0)	(68.2)	(63.6)	(59.9)	(57.3)	(68.0)	(71.6)	(77.9)	(87.0)	(99.1)
14 AVAILABLE GENERAL RESOURCES AT YEAR END c/	98.2	103.8	97.8	100.9	101.2	92.4	72.0	53.5	39.7	28.5	18.6	72.0	53.5	38.8	26.2	15.3
15 Available resources	98.2	103.8	97.8	100.9	101.2	92.4	72.0	53.5	39.7	28.5	18.6	72.0	53.5	38.8	26.2	15.3
Restricted resources																
16 Operational reserve	33.0	39.4	45.5	52.0	59.3	58.9	56 2	52.1	48.4	45.6	43.4	56.2	59.6	65.0	72.9	83.4
17 Loans receivable			1.9	8.0	8.0	12.3	14.0	12.9	11.1	9.3	7.5	14.0	12.9	11.1	9.3	7.5

	Actual					Estimated	Zero growth projected					20 per cent growth projected				
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
18 Non-convertible currencies	0.9	1.0	0.9	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
19 Total restricted resources	33.9	40.4	48.3	61.0	67.8	71.7	70.7	65.5	60.0	55.4	51.4	70.7	73.0	76.6	82.7	91.4
20 Total general resources at year end c/	132.1	144.2	146.1	161.9	169.0	164.1	142.7	119.0	99.7	83.9	69.9	142.7	126.6	115.4	108.9	106.7
STATEMENT OF TOTAL OUTSTANDING COMMITMENTS																
(i) Grants																
21 Project commitments from previous year	139.2	164.3	200.8	220.2	259.7	291.6	290.9	280.9	260.5	242.0	228.2	290.9	280.9	298.2	325.0	364.5
22 Approvals during year (grants only)	58.2	67.8	73.0	78.8	81.5	56.3	60.0	50.3	47.6	48.1	47.6	60.0	88.0	101.4	120.1	142.1
	197.4	232.1	273.8	299.0	341.2	347.9	350.9	331.2	308.1	290.1	275.8	350.9	368.9	399.6	445.1	506.6
23 Project expenditure during year	(30.7)	(31.3)	(45.7)	(33.9)	(44.6)	(48.0)	(61.0)	(63.2)	(58.6)	(54.5)	(51.3)	(61.0)	(63.2)	(67.1)	(73.1)	(82.0)
24 Annual project savings	(2.4)	0.0	(7.9)	(5.4)	(5.0)	(9.0)	(9.0)	(7.5)	(7.5)	(7.5)	(7.5)	(9.0)	(7.5)	(7.5)	(7.5)	(7.5)
	(33.1)	(31.3)	(53.6)	(39.3)	(49.6)	(57.0)	(70.0)	(70.7)	(66.1)	(62.0)	(58.8)	(70.0)	(70.7)	(74.6)	(80.6)	(89.5)
25 Total outstanding grant commitments c/, d/	164.3	200.8	220.2	259.7	291.6	290.9	280.9	260.5	242.0	228.2	217.0	280.9	298.2	325.0	364.5	417.1
(ii) Loans																
26 Loan commitments from previous year			6.4	7.2	0.2	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27 New loan approvals	0.0	6.4	2.7	0.0	4.8	0.0	2.5	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0
28 Loan disbursements during year			(1.9)	(6.1)	0.0	(5.0)	(2.5)	0.0	0.0	0.0	0.0	(2.5)	0.0	0.0	0.0	0.0
29 Transfers to grants				(0.9)												
30 Total outstanding loan commitments	0.0	6.4	7.2	0.2	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
31 TOTAL OUTSTANDING COMMITMENTS	164.3	207.2	227.4	259.9	296.6	290.9	280.9	260.5	242.0	228.2	217.0	280.9	298.2	325.0	364.5	417.1

a/ This table shows the annual level of project approvals and expenditures made possible from UNCDF general resources. It does not show additional project approvals as expenditures made possible from cost-sharing and/or trust-fund arrangements.

b/ Data include pledges made the previous year but paid the year in question.

c/ Some totals may appear incorrect by plus or minus 0.1 owing to rounding.

d/ These amounts exceed available resources owing to the application of the partial funding formula.